

Committee on Commerce Subcommittee on Energy and Power

Electric Utility Industry Restructuring

Field Hearings
April 18, 1997
Richmond, Virginia

Good morning, Mr. Chairman and members of the Subcommittee. My name is Jean Ann Fox and I am the Vice President of the Virginia Citizens Consumer Council. We appreciate the opportunity to present this testimony and we look forward to working with you and your staff to ensure that all customers benefit from the introduction of further competition into the electric industry.

The Virginia Citizens Consumer Council is a statewide, dues-supported membership consumer advocacy organization, which has represented consumer views for thirty years before the Virginia General Assembly, state regulatory agencies including the State Corporation Commission, and Congress. We support the concept of customer choice in the provision of electric service, just as we support customer choice in the provision of all goods and services. But, "customer choice" in the electric market is not an end in itself. A change in the structure of the electric utility industry should only be done if and when benefits to society are improved. All classes of customers must see a direct benefit for change to be acceptable. In a transition, we should not lose ground on the fairness of electric rates, the quality and reliability of service, protection of the environment, or public health and safety. Residential electric customers are at great risk if electric utility restructuring is done poorly.

VCCC believes that a federal mandate is not necessary. The structure of the electric industry and the rates for service vary among the states. Many high cost states are moving to introduce further competition into the system. The motivation is not the same for relatively lower-cost states, like Virginia. We understand that there is probably a need for federal legislation to clarify jurisdictional issues, address reciprocity and to permit regional regulation. However, we believe that states should preside over the decision to allow retail competition and under what terms. The Virginia General Assembly is actively studying the issues involved in restructuring the electric industry in Virginia. The Virginia State Corporation Commission is also taking thoughtful steps to prepare Virginia's electric utilities for a more competitive market. VCCC is actively involved in both policy-making arenas.

Today, we have been asked to comment on the costs or benefits which we believe will result from customer choice and also to include issues we feel should be addressed in federal customer choice legislation.

Benefits and Costs

The potential benefits to residential consumers of choice are obvious: lower rates and better customer service. But to our knowledge, no one -- policy makers or industry -- has

guaranteed that these benefits will flow to residential customers if choice is introduced for all classes of customers. Nor do we expect such guarantees to follow. We are highly skeptical over unsubstantiated claims of percentage cost savings for residential customers.

On the other hand, the potential costs to residential customers appear far-better documented: rising rates, service degradation, and abusive and intrusive marketing practices. Rising rates are certain to follow as stranded costs, systems benefits charges, and other types of transition charges make their way onto residential bills. Customers of Virginia's largest electric company should get rate reductions now under traditional regulation. A State Corporation Commission staff report recently found that in 1995 Virginia Power was over earning and that rates could be reduced almost \$100 million a year. We don't have to wait for future competition to give customers the benefit of lower costs and efficiencies from changes in the industry.

Residential customers do not have any of the advantages and assets of large industrial customers to win in a deregulated electric market. Only if the new market structure gives residential consumers a fair chance to receive the benefits of competition, ensures that their interests are represented in the market, and provides fundamental protections against abuse and cost shifting can we come out ahead.

Federal Legislation

If there is to be federal customer choice legislation, we believe it must incorporate the following:

1. A clear policy of affordability for all residential customers, including targeted programs for low income persons and customers in high cost areas. The costs for this universal service policy must be shared among electricity producers, service providers and users. In passing the Telecommunications Act last year, the Congress recognized the importance of this federal mandate to make sure that residential customers were not harmed as providers rushed to compete for high-end customers. No electric consumers should be left to freeze in the dark.
2. Residential customers must be among the first-served. If not, competitors will focus their efforts on the high-end customer and supply the cheapest power to them. And, competitive safeguards must be imposed for a successful transition from monopoly to fully competitive status. Effective competition must exist before regulation is relaxed.
3. Stranded costs must be recovered in a way that is economically rational and socially fair. Utilities should not be compensated for inefficiencies or poor investments, and they should not be compensated twice or excessively for normal business risk. When the telecommunications industry was restructured, AT&T had to write down its costs. Why shouldn't electric utilities undergo the same sharing of stranded costs along with suppliers and customers? In a more competitive market, electric shareholders will have new opportunities. We believe they should also bear some of the downside in this transition.

4. Cost allocation should not be skewed. Transmission and distribution costs must be allocated in proportion to actual usage and cost causation. If a cost is incurred solely to serve a large user, residential customers should not bear that cost.

5. The costs for environmental, conservation, and other "social benefits" costs must be allocated fairly. We know that Americans care about their environment, but we believe that new costs of environmental protections should fall, wherever possible, on the suppliers and customers who seek to benefit from new market opportunities.

6. Reasonable consumer protections against abusive and intrusive marketing must be created and enforced, including service information and delivery, billing and collection, and dispute resolution. Unauthorized switching of electric suppliers (a tactic we called "shocking") and other forms of fraud must be prevented. In many states, electric companies have been exempt from state consumer protection laws. In a restructured market, protections will be increasingly necessary. Residential providers, including aggregators, must be licensed.

Conclusion

It is important that the Congress remember that residential consumer skepticism about the claimed benefits for electric choice is well-founded. In telecommunications, promised competition with price cuts and better options for local and cable service have yet to materialize.

Instead, we see mergers and announced new ventures put on hold. In the natural gas market, big users have disproportionately benefited from deregulation. Residential customers have the least market power when it comes to benefiting from restructured former utilities.

We know that residential electric customers in New Hampshire and Illinois are participating in pilot programs and have seen cost savings of 15 to 20%. This is encouraging, but by no means a guarantee that these savings would be found in a real world situation. These customers have also reported confusion about choices and rates and fear of an all-out marketing blitz in the future. It is our understanding that pilot projects are intended to work out the technical feasibility of customer choice, not to demonstrate actual cost savings that would result in a future roll-out.

We thank you for holding these field hearings, Mr. Chairman, and I'll be happy to answer any questions.

Jean Ann Fox, Vice President
Virginia Citizens Consumer Council
114 Coachman Drive
Yorktown, VA 23693
757-867-7523